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NORTHWEST BRANCH

OFFICE OF RESEARCH AND ESTIMATES

CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

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Office of Reports and Estimates  
Northern Branch

BRITISH DIVISION

UNITED KINGDOM

1. The issues of the Anglo-Argentine Trade Agreement

The Anglo-Argentine Trade Agreement clearly violates the principle of multilateral trade, to which the UK as a signatory of the ITO charter is ultimately committed (though Argentina is not), but such a bargain was natural for two countries whose economies are both complementary and short of dollars and gold. According to the agreement the UK is to sell Argentina manufactured products, oil, and coal, while buying from Argentina a range of primary products including meat, hides and grain. The trade is expected to balance over a five year period at the equivalent of about \$250 million per year in each direction. Prices are subject to annual renegotiation, and neither country may demand the conversion of any periodic favorable balances on current account into hard currencies or gold. At present the only firm commodity contract which has been signed is for a year's supply of meat.

The agreement is patently discriminatory against the US, particularly in view of its five-year life (although either signatory can void the pact at the end of any year). It eliminates dollar oil products from directly entering the Argentine market in favor of sterling oil (although the UK will probably buy a substantial quantity of oil from US companies in order to supply Argentina). Apart from oil, of which the US has traditionally been the major supplier, the agreement will encourage Argentina to buy other British goods even though the equivalent US products may be cheaper; the US will be largely eliminated from the Argentine market. These are unfavorable developments for the US: loss of business and the rejection of a basic economic policy, multilateralism.

But the fact remains that if the UK had to pay for its Argentine purchases in dollars or convertible sterling little could be bought--and that Argentina, if unable to sell its meat and wheat to its natural trading partner, could not dispose of all its produce. From this it follows that Argentina could not

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buy its requirements of coal, oil, or machinery from anywhere. Since neither country can earn enough dollars to pay for its requirements in the US market, a UK-Argentine agreement on some basis other than convertible currencies had to be reached.

The British Government is probably quite sincere in its protestations of faith in the principle that economic health can best be maintained and the levels of world trade raised by the multilateral settlement of accounts. But it feels that economic health must be restored before multilateralism can be instituted; premature convertibility of the pound in 1947 brought economic crisis. Meanwhile, the UK (and other countries) must do everything possible to replace hard currency sources of needed commodities with others that don't require payment in dollars or convertible sterling. The more the UK's dollar earnings fall off, the more it must strive to find non-dollar sources, i.e., to "discriminate" against the US. The resultant "bi-lateral" agreements tend to restrict international trade, create high-price trade areas insulated against competition, and establish conditions tantamount to barter. No one argues that this is economic progress, and such developments that freeze out US commodities may lead to serious difficulties for the US after Marshall Plan termination.

The UK Government, nevertheless, can not now pay much attention to long-run consequences and principles, desirable though they admittedly are. It is faced with the inescapable necessity to concentrate on the moment. The Government could preserve the principle of multilateralism at this time only by passing up vital trade or accepting the total exhaustion of the sterling area gold and dollar reserves in a matter of months.

## 2. Communists tactics seen successful with dissatisfied dock workers

The current dock workers' unofficial strike which has called out some 8,000 dockers in London and has tied up over eighty ships in port is recognized as stemming from the Communist Party's machinations to exploit every vulnerable situation in an effort to discredit and undermine the Labor Government. The strike is a continuation of a dispute involving Canadian seamen that has tied up two Canadian ships for more than two months. The London dock workers, who refuse to unload the Canadian ships, claim the strike is a "lockout" since dock em-

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ployers have called off all other work until the Canadian ships are unloaded. The Government, which has strongly condemned Communist activity in the strike, is loath to call out troops or to declare a state of National Emergency (as was done last year); should the strike continue much longer, however, there will be no other alternative.

While the Government is aware of the successful efforts of the Communists in prolonging the wildcat strike, it is seriously concerned with the underlying cause: the evident dissatisfaction of the dockers with their union, the Transport and General Workers Union, which has given the Communists the opportunity to use their tactics advantageously. Government accusations against Communist activities in the trade unions may bring the dockers back to work, but it is imperative that union leaders endeavor to find a solution for ending the labor unrest which is spreading throughout the country, since Communist methods are only successful in the UK when the labor rank-and-file are dissatisfied with its union leadership.

### 3. Conservatives make pre-electoral Commonwealth policy

The cardinal point in the recently issued Conservative Party statement on Commonwealth policy is its insistence that the Commonwealth tie is, and must continue to be, the closest and most binding of the UK's international allegiances. Support of the UN, Western Union, and CEEC is affirmative, but subordinate. This position reflects a traditional Conservative attitude, and it does not in fact develop an issue with Laborite policy, which is demonstrably zealous in its devotion to Commonwealth and imperial issues.

In elaborating its views as a campaign plank, however, the Conservative Party advocates the formation of new organisms in order to facilitate closer inter-Commonwealth cooperation: (1) a Commonwealth defense council and combined staff, (2) a group for empire economic consultations which would consider economic priorities and seek to increase inter-Commonwealth trade within the framework of imperial preferences, and (3) a Commonwealth Tribunal, replacing the Judicial Committee of the Privy Council, which would advise in the event of disputes between Commonwealth members. The party also promises improved living standards for the colonies, undefined special measures directed against Communists, and self-government for dependent areas as soon as the populations are sufficiently mature.

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In opposing these bodies, the Labor Party will be on strong ground so far as the Commonwealth is concerned, since most of the Commonwealth countries are opposed to formal organizations. Since Labor can justifiably take pride in its management of Commonwealth relations and particularly can point to Attlee's universally acclaimed achievement of keeping India in the Commonwealth, the more specific Conservative platform will probably not win the party many votes; it will appeal primarily to traditional Conservatives rather than to the all important floating vote. However, should the economic situation continue to deteriorate, the inter-Commonwealth economic policies advocated by the Conservatives might win them greater middle class support in the overall context of repudiation of the Labor Government's economic policies.

4. Britain's Cyrenaican action draws two-way criticism

As so often has occurred to the British in the Middle East arena, they are being damned from two sides for their recent action to make Cyrenaica internally self-governing. The Italians read into the "unilateral" British action the aim of excluding Italy from further influence in their ex-colony; it is one issue on which Italian right-wingers and Communists can agree. Much of the Arab world takes umbrage at the splitting of Libya and the supposed preparation of Tripolitania for a return of the Italians. Britain has acted, of course, largely out of regard for its strategic interests in the Mediterranean; these require the continuing retention of military rights in Cyrenaica. The step accords, moreover, with desires inherent in rising Arab nationalism, that has been apparent since the war all over the Arab world, and it does not necessarily prejudice a future unity of Libya.

5. Cripps meets the economic issues with little action

Chancellor Cripps's widely awaited declaration to Parliament regarding Britain's increasingly serious financial situation contained, according to preliminary reports, few of the hard and specific measures which had been expected in order to produce an immediate reduction in the dollar outflow. This wait-and-see attitude is difficult to understand in view of the urgency of the situation.

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Cripps indicated that the dollar drain during the second quarter of 1949 had nearly doubled that of the first quarter, and that gold and dollar reserves stand at present at \$1,624 million, well below what had been considered a safe minimum. He ascribed the increasing drain as largely the result of decreased sterling area sales to the US, but he declared emphatically that the Treasury has no intention of devaluing the pound.

By way of immediate measures, Cripps stated that the Government is now postponing dollar purchases "wherever possible", although existing contracts will remain in force, and that dollar expenditure other than on imports will only be permitted for absolute essentials. These steps, however, will have little effect on the present rate of dollar drain. In September, Cripps stated, a new import program will be drawn up --after the Dominion Finance Ministers conference and in the light of the new ERP program for the year and of the working of the new intra-European payments plan. He indicated that it might be necessary then to reduce the consumption of certain foods and raw materials from the dollar area. Cripps also made the usual plea for greater productive efficiency and greater export efforts, especially to the dollar area. He added that the critical situation demonstrates the need for "positive, long term policies", but he did not propound any such policies.

It is possible that Cripps held off announcing import cuts from the US for fear of the effect on ERP legislation in the US Congress, although he clearly implied as much. These would mainly affect the US cotton, tobacco, and oil industries. It is possible that he postponed hard measures until after the Commonwealth Finance Ministers consult on cooperative measures. It is also possible that there is some lack of agreement in the British Cabinet which remains to be ironed out. In any event, Cripps has not responded to a situation which would seem to have called for immediate draconian measures.

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SCANDINAVIAN DIVISIONDENMARK1. Immediate crisis over South Schleswig avoided

Agreement of the five non-Communist parties on a South Schleswig policy has averted the possibility of a government crisis and an immediate challenge to the Social Democratic government's position is now unlikely. Agreement was achieved by the government's compromise on the question of the Danish minority's right to self-determination. Previously the government had supported self-determination in principle but had refused to accede to Moderate Liberal Party demands that Denmark request the inclusion in the German peace treaty of a specific provision recognizing the right of the Danish South Schleswigers to self-determination. All five parties now agree to support self-determination "in international agreements" and to request inclusion in the German peace treaty of a provision guaranteeing civil rights to the Danish minority. The Rigsdag has now recessed until October.

Prior to the agreement the government had attempted to relieve one acute phase of the South Schleswig situation by informing France, the US and the UK of Denmark's continuing concern over the excessive accumulation of East Prussian refugees in South Schleswig and stating that Denmark is prepared to assist in resettling the refugees. The government hopes that sufficient progress will be made in alleviating the refugee pressure and in securing more equal treatment for the Danish minority, so that political tension will be eased by the time the Rigsdag reconvenes.

ICELAND1. Strike of Dagsbrun labor union resolved

A strike of the Communist-dominated Dagsbrun labor union in Reykjavik ended after a 4-day work stoppage which achieved an average wage increase of seven to eight percent for the strikers. Since this wage increase was double that recommended as a demand by the Social-Democratic leaders of the Federation of Icelandic Labor Unions the Communist leaders of the Dagsbrun Union can claim a greater victory for the workers than would have been possible under other leadership. The increase may therefore jeopardize the Social-Democrats' retaining control of the Labor Union Federation at the next election. Iceland's economy will suffer from

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the wage increase because of resultant higher domestic and export prices at a time when competition in the world markets is keen.

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